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POOLED MONEY INVESTMENT BOARD
CalPERS
Regular Meeting - Open Session
Friday - January 16, 2009
10:00 a.m.

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>> Good morning. I guess thank you for being with us today. We much prefer these hearings to be as they typically are, invisible, uneventful, and uninteresting.

Unfortunately, that seems to not be true right now because of our largely ministerial role in helping manage cash flow for the State of California and bond and special funds that help with the variety of different important projects. We have some very brief ministerial chores and it will take a minute before we get to the substantive issue.

First, with respect to calling roll, I'll note Director of Finance, Genest and Lockyer is present. We expect Mr. Chiang. I should have asked for his representative, if someone is with us yet? Seeing not, we'll continue. We have minutes from the prior meeting. And I guess if Mike moves, I'll second.

>> MICHAEL C. GENEST: Okay.

>> BILL LOCKYER: And those without objection are adopted. Designations listed under item number three, these are -- well, you'll give us a brief comment about those?

>> Bill Dowell, with the State Treasury's Office. This is a routine document presented each month. This month we have just a snapshot of the portfolio. There is no forecast associated with this month's designation. As of December 31st the Pooled Money Investment Account stood at \$63,290,000,000 with effective yield of 2.154% and quarters to date yield was 2.545% and year-to-date yield was 2.667%. Average life of the

portfolio stood at 223 days. We had AB 55 loans approved \$11,852,000,000 with \$5,680,000,000 being been disbursed. The local investment fund had \$23,392,000,000 with 2,721 folks participating. Okay.

So this is again routine and simply making those designations.

>> I'm supposed to ask if there's anyone in the office with questions of these things? I'll let you know, it would be the first time in 40 years there has been one. But, Mike, we need approval here.

>> MICHAEL C. GENEST: Okay.

>> Second, and we'll substitute our rule. Six is Surplus Money Investment. Did I miss one?

No, pardon, four, authorization for general fund, internal borrowing is item number four this month, Mr. Treasurer. This is routine that comes before the board every three months. And the situation this month is a little bit different. And I believe that we will need the State Controller's staff to give us some input here before we can -- the board can consider this month's request for internal borrowing.

>> We're not there yet. We're talking about four?

>> Is that where it comes, rather than on the list number -- how do we do that? There's a mic if you want to get that there. Welcome to the CalPERS board.

>> Thank you.

>> Item number four. Mr. Chairman, I do have an issue with respect to this. And normally this is a pretty pro forma sort of a thing. However, given the State's cash flow situation, I think we have to be more attentive to issues around the borrowing situation than we normally would have to do. And I think we have to look at it more frequently than what we normally do. This authorization, which I think for two different ones, both for three months which is the traditional approach. This morning, the Controller published his cash management plan. We had hoped to see a cash management plan to take us through the rest of the year. We've heard statements to the effect that even without a budget, we can make priority payments to the rest of this fiscal year and those are important statements to take into account.

However, without a specific plan, we're somewhat concerned about it. The plan is only for the month of February. The plan also doesn't address in detail how the Controller is proposing to do the borrowing and the cash management in such a way as to protect special funds. As you know, Mr. Chairman, the statute under which we borrow this money says that it does not authorize any transfer that will interfere with the object for which a special fund was created, et cetera.

>> Right.

>> We need to be very cognizant that our borrowing does not create an untenable situation for special funds and with no plan on how that will happen, we're concerned about giving the Controller three-months of authority for borrowing. In addition, items later on the agenda will put pressure on the PMIA. We need to be tentative to the impacts of that pressure. It may well be that at some point, if we don't get a budget next month, we have to consider borrowing less, even knowing that that will put the general fund in a worse situation. Because we have to be attentive to the needs of the special funds and perhaps we'll have to try to free up some money for the items to be discussed under issue number seven. So with all that in mind, I would like to suggest that we adopt the staff recommendation but with one amendment and that is to make the authorization for only one month, which would mean we would have to be back here sometime next month because obviously we can't let that authorization lapse. But I think we need to hear from the Controller how he'll address those very important concerns.

>> Okay. Now, the current resolution provides for \$16,605,000,000 through April 30 and you were contemplating adding \$2 billion or the recommendation was to add \$2 billion.

>> Recommendation of the Controller's Office was to add \$2 billion.

>> To do what?

>> Again if someone is here from the Controller's that that can speak to this, my understanding there's pending legislation associated, requested trailer bills they believe would increase it by \$2 billion.

>> That's correct. The Administration has trailer bills pending to add to the borrower of that \$2 billion.

>> Since that's not enacted you don't need -- you're not worried about reflecting that in the current authorization.

>> I think the staff recommendation is appropriate to give that authorization contingent on the enactment of those trailer bills if we get a budget deal in the next few weeks and it's enacted by February 1, we may well want to do that borrowing in February. So I think it's prudent to allow for that. As staff has recommended.

>> Public Finance any comment on the month authorization? Okay. Well, it would be 18605 a third -- I want to go to --

>> I think we may need to leave the dollar amount the same but have it --

>> Only extend for a single month.

>> Got you.

>> I think we already acted on \$12 billion of that.

>> The way the resolution or authorization is prepared it would be the same, we would simply adjust the date so instead of going from February 1st to April 30th, it would go from February 1st to February 28th.

>> Correct.

>> Anyone else wish to make any comments? All right. Is that a motion.

>> I would move that yes.

>> Second and I guess we'll record it both as voting aye is that okay? And that motion is adopted. Surplus money declarations. Surplus money declarations.

>> Yes, declaration number six in the briefing binders. Again this is fairly routine document that comes before the board each month as presented the declaration surplus money is \$7,799,064,000 and there's a reduction of surplus presented as \$9,132,027,000 and attached to the declaration is a detail that breaks it down by fund number. Okay. Any questions on this?

>> Anyone wish staff or others to make comments about this item, it is again pretty routine. And I guess I'll make a motion we adopt it.

>> Second. Proposal and substitute the two of us as voting aye.

The surplus fund requests from Water Pollution Control, is there a second on Water Resources, we have two requests to join the surplus money investment fund this month, one from State Water Resources Control for the Water Pollution Control revolving fund and second one comes from the Department of Corrections and we would like to have the inmate special deposit fund added to the surplus money investment fund. Both of these requests were reviewed by the Treasurer's Office and Controller's Office and we're recommending approval.

>> Okay. This seems to be routine and sort of wears the interest kept in an accounting way.

>> I would move it.

>> Second and if it's -- we'll substitute the role again with two of us voting aye. Number seven and this is the item that probably most people are here. We did, by the way, distribute cards that people wanted to make comments -- if people wanted to make comments. I think it's unnecessarily formal to do that. So when we get to the item and ask for public comment if I could get a substance of how many would wish to make some comment, we'll maybe better manage everyone's time that way. To -- well, let's start with staff, who is going to -- Mike, are you going to open this? You may need to turn on a mic there.

>> You can hear me?

>> Yes.

>> Good morning, we've provided you with a written staff report for this item. There are copies at the back of the room for members of the audience and we've also posted it on the Treasurer's web site at www.treasurer.ca.gov. Since the last Pooled Money Investment Board meeting on December 17th there have not been budget solutions to improve the State's cash position and State Treasurer's Office has been unable to issue a General Obligation Bond or Lease Revenue Bond. Accordingly staff recommends the following. On today's agenda you have eight AB 55 loan renewals. These are standard renewals. Staff recommends that you approve item 7 A, B, E, F and G for the amounts requested by the department these amounts are either the amounts of the current loan or reductions from the current loan at the department's request. We recommend that approve item 7 C and D for the amounts of the current loan without any of the requested increases.

Item 7 E we recommend approve that as requested which includes a small increase that is necessary for the department to pay wages. Part of voting --

>> Go back to that. Item 7 E is for the Resources Agency, it includes 3.4 million increase for the Resources Agency to pay the cost of wages for the month of December and January.

>> What to do with the other \$264 million?

>> Those were spent already.

>> They're already gone? Okay.

>> Part of voting on these items today at the end of the meeting I would like to read the department's name and loan amount into the record to properly reflect your decisions.

>> Can you do that at the conclusion of the meeting.

>> Yes.

>> Did you mention F and G? On those? On that?

>> Yes.

>> As the items you would wish -- the only amendment on the list before us, is that additional \$3.4 million which pays for November and December salaries that have already been spent?

>> Correct that is the only loan that would reflect an increase over the current loan amount.

>> Any of them in the -- okay.

>> Any questions about this item at all?

>> I would just make a point as I understand it if we were to approve these renewals that would not constitute any sort of approval to restart a project that has been delayed or stopped by virtue of the Department of Finance and budget letter. This is not that issue.

>> Correct, we'll be getting into that more in

recommendation number four.

>> So we're not really spending any new money here at all right?

>> Correct.

>> Other than maybe in the Resources.

>> Standard loan renewals.

>> So I would be willing to recommend that.

>> Yeah.

>> Yeah. So again, sort of the good news is they have a line of credit. The bad news they can't spend it, right? Did I get it right? The Controller's representative joined us by the way. Did I say that correctly?

>> With the exception of disbursements authorized under recommendation number four which I will be covering in a moment.

>> We aren't there yet. Okay.

>> On today's agenda you also have three new loans.

>> Oh, we don't need separate motions on each segment? Okay. Go ahead. On today's agenda we have three loans, they're items 7 H for the California Air Resources Board. Item 7 I for the California High Speed Rail Authority and item 7 J for the California Housing Finance Agency. We recommend that you postpone consideration of these items until the next meeting.

>> Okay.

>> Also on the agenda we listed all other outstanding AB 55 loans, these are items 7 K through 7 ED. There are over 100 of these loans. This time staff is not recommending that you take any action to reduce these loans but we may come back with a subsequent meeting with the recommendation to do that.

>> Okay. These in effect lines of credit that our bank extended due to the various departments and the agencies and so on was that these represent.

>> Okay.

>> Any questions at all? Anyone want to comment on this?

>> We're going to get to the issue of next --

>> Yes, we are.

>> This is basically what happens is they get authorization when they get a loan for a year. And if they bump -- correct me if I'm wrong, if they bump into the calendar year you need to renew the authorization to technically not have them fault otherwise they're in technical default. To avoid that we continue the authorization. But, in fact, the money is frozen.

>> Right.

>> Our next recommendation relates to the disbursement freeze that was adopted at the December 17th, 2008

meeting. We recommend that you continue the freeze except for -
- and this would apply to all of the loans we just mentioned, the outstanding loans and loans renewals recommend that you continue to disbursement freeze with an exception of \$500 million total disbursements. The \$500 million should be distributed based on determinations made by the Department of Finance of which disbursements have the highest priorities and are in the State's best interest given lack of budget solution to improve State's cash position and lack of General Obligation or Lease Revenue bond issuances, that concluded -- has concluded that this is the maximum amount expended between now and the end of the fiscal year and still provide a reasonable protection against the pool depletion.

Staff recommends that the Department of Finance report back at the next meeting regarding how the \$500 million has or will be distributed. Regarding implementation of the disbursement freeze, staff recommends that the Department of Finance and State Controller's Office establish a mutually agreeable disbursement approval or certification process to ensure that only the disbursements authorized in recommendation number four are made. Our final recommendation today is you convene an early February meeting at that meeting the State Treasurer's Office will provide a report regarding staff of any completed or planned General Obligation bond sales or Revenue bond sales and whether any additional funds are available or expected to be available.

>> I have a factual question. You said that the \$500 million is the amount we can authorize without creating a negative balance or something -- I forget your exact terminology. We were told that at the last meeting and subsequently I understand that the entire \$500 million was already disbursed is this new or do we end up \$500 million in the hole here? Part of it represents a new amount because there were claims not paid as of the last meeting and were being held -- were at the Controller's Office and those were paid. This is a little additional. We believe, however, that that is within estimating differentials and we're comfortable with the additional \$500 million at some point the Department of Finance has a slightly different dollar figure. We would like our staff person to present that when you think it's appropriate Mr. Chair.

>> It's probably the right time. Whoever that might be.

>> Is that Karen, you can come up?

>> Let me just say obviously there's -- this board has almost no flexibility if any to expand that number. It's questionable whether we have the flex abilities to authorize

that number. On the other hand, we've looked at the disbursements that are owing or the bills that are owing, acknowledging that the data anybody has on this is a little shaky. So we'll have to get this group with the Controller together and really sort it through as we actually start releasing things for payment. But it looks to us like really there's about \$650 million not \$500 million that absolutely has to be paid. I would say that of course we're hopeful to be budget by February first and that would be no problem at all to do the \$650 million. And but even if there's not, at some point have you to trade off not paying general fund obligations versus not paying these debts to the various projects that have already been incurred.

And I think we've made the assessment that at a starting point, \$650 million here needs to be paid even if it means making the general fund cash flow situation \$650 million worse, as bad as it already is, because these are debts that we think we really have to pay. So, Ms. Finn if you could go over our recommendation?

>> After the last board meeting, excuse me, Karen Finn with the Department of Finance. After the last board meeting directed we have been working with the various State agencies and asked them to report various pieces of information. And part of the information that they reported, that as a point in time, approximately \$499 million of bills that had already been incurred for work prior to this board's action, needed to be paid. And in addition, we asked them to estimate what costs would be needed for the rest of the year between January and June. And they estimated approximately \$149 million which is the total Mr. Genest is talking about approximately \$650 million. So, those expenses that already have been incurred for State contracts we feel will have to be paid. And then, depending on this board's next action, depending on the budget solutions, if departments don't have other positions that they can redirect staff into, if we have to move into layoff modes, there's approximately \$150 million that needs to be paid. So, that is what our 6 month need is estimated to be.

>> Yeah, I guess the only question I would raise is, do we -- if part of what you're recommending is predicated on the hope that there's a budget by the 1st of February, but we're providing allocations that run until June 30th is there a disconnect between the two ideas.

>> Well, if you imagine the unimaginable, which is no improvement of our budget situation all the way to the end of this year. The State will run up any number of debts that it very well should be paying and it won't. We want to put these in the category of things that should be paid. Knowing without

a budget it may create that much deeper of a hole as the Controller does cash management through the rest of the fiscal year instead of withholding X he may need to withhold X plus \$650 million we recognize that's a -- we're between a rock and hard place here. We wouldn't want to make the general fund cash flow situation worse. On the other hand we don't think we can avoid making at least these payments.

>> I notice a number of rocks and a number of hard places. What we basically have, Exhibit A, is multiple columns. I just got at least give the awards as a Community College systems. So one of the things we ask is what's the hardship if you have to shut down, what does it cost your various contracts and community -- and they all have bad impacts so it's not pleasant anywhere. But the one that was most interesting was Community College that says \$940 million in various bond funds administrative costs that they would wish to continue to make those payments and cost of shutting down \$326 million.

>> I think there may be more complex story behind that.

>> Don't get complicated today I guess more than we already are so basically, we see \$150 million administered costs and 500 million work already being done and so on and so on and that's the basis roughly for the 650 idea.

>> Correct.

>> Any comments at all.

>> I think we would be fine with that.

>> I think this is the correct time to ask if anyone would like to comment.

>> Can I suggest Mr. Chairman we have two separate topics here and they're both controversial. One issue is of essentially unpaid bills for work already performed which is what we're talking about now. And it's got slight addition of administrative issue. And the other is the whole set of 470 or number of projects --

>> It may not be 60 but it may be 6,000.

>> It keeps changing.

>> There's a large number of projects that have now been stopped and I think we're probably going to get public testimony on both sides of that. I think it might be better to divide the question and initially focus on these disbursements we're talking about here. Because I actually have a different view of the second question and things I would like to say about it. Okay. We can do that. If something seems compelling outside of the first two columns sort of limited your ability to do anything about it.

>> Let me go ahead and say what I was going to say about the second issue and maybe we can take testimony on all of

them I guess. But in the second category, the Department of Finance issued a what we call a budget letter to all State agencies and even Community Colleges and some non-state entities or at least entities outside of the control of administration like UC and CSU et cetera. And we issued that December 18th very shortly after this action of their board and last meeting I think was the 17th. And that essentially sets off all projects. Shut them down. Walk away. Now it also said, however, that we were going to consider exemptions to the stop work order based on the cost of stopping the work, including any legal implications. And we advised all these entities who were told to stop their projects that they should not stop one if they thought they could qualify for exemption but they needed to immediately contact their Department of Finance representative to discuss that.

And that exemption process number one this is all temporary situation and could go away happily if we get a budget or if we sell a lot of bonds. I don't think we'll sell a lot of bonds without a budget. We may get some flex abilities but not much. Until that resolution, virtually all of those projects should be stopped. We believe they have been stopped. Except for the ones that have asked for exemption and the Department of Finance denied the exemption, most of the exemptions, we have a list of isn't it 276 or.

>> 276.

>> 276 projects for which we have not yet told them you are not exempt from the stop work order, In other words they're continuing to run up bills for which this board has no plan how we'll pay. But we're going to take the risk of allowing those to continue a little bit longer because we are very hopeful that there will be a budget on February 1st at which point this could become a mute question. So, we can -- I believe that list is available or has been districted.

>> They left had here, yes.

>> If your project, for example I see Mr. Victory from judicial council out there off from the courts and that project is one that we are still considering for exemption. We're not yet saying stop work if we don't get a budget by February 1st we don't see a way to hold off longer on the stop work order if your project is on the list of 276 at least for today, the Department of Finance is not telling you to stop working. Of course, most of the projects are not on that list and most of them should be stopped as of today.

>> What's the aggregate amount of -- what's the dollar amount with the list, the 276 projects?

>> In totality we estimate again the total cost of those 276 is something around 3.6 billion. What they probably

need for the next 6 months is about 1.1 billion to continue.

>> We realize the board doesn't have 1.1 billion. We want to hold off a few more weeks until we see if we get a budget.

>> How much do they spend in the next two weeks? Do we have any idea?

>> I don't have any idea. Well you said 1.1 billion.

>> In six months. No you said 3.6.

>> The value --

>> Oh, total.

>> Even if it ran nine months.

>> So 1.1 billion so maybe it's couple hundred million or something.

>> Maybe I don't have my calculator.

>> Okay.

>> Well, obviously, if your first observation prevailed that we're setting aside 6-month's worth in the 150 million, if you didn't need to spend all that right away, you might be able -- I think we have the administrative flexibility to move it around some, is that correct?

>> I think so.

>> Working with the Controller I think we can do that.

>> Yeah.

>> Maybe it's worth generally mentioning before asking for public comment, essentially what we do is issue lines of credit to the various departments and agencies in the state that then use that for their cash flow and construction needs has gone out the door already probably in the neighborhood of \$5 billion most of which I guess has been spent and certainly obligated. And so, in addition to what has been in the pipeline and as the director mentioned earlier, or the various new refined lists of bills that need to be paid and so on, it gets close to \$7 billion that we're technically in the red for. The legislative analysts comment just which is I thought is a good summary of the situation simply indicates that through the ends of -- action, corrective action, general fund cash load deficits in February we don't have the practical or legal ability to spend amounts of excess cash on hand at any given time.

That means corrective action to address those cash flow short falls will occur. Well, that is sort of what is happening now: How many are there in the audience that would wish to make a comment? Okay. I don't know if there's a way to make it certain topics or just routinely take anybody that --

>> Mr. Chairman, we were contacted earlier by Will Kempton and asked for special consideration for schedule.

>> I didn't see him.

>> I understand he's here. If we want to let him --
>> He's hiding.
>> Not anymore. Okay. Yeah, we can do that. Mr.
Kempton.
>> My candidate for Governor. Sorry. (Laughter).
>> You're on.
>> Mr. Chairman, members, thank you for your
consideration. I did not know I had requested that special
consideration.
>> Okay, well you don't have to. Go back to work.
>> But what a sneaky way to get to the front of the
line.
>> All right.
>> Listen, I just wanted to say that representing one
of the State Departments and Governors efforts to rebuild
California's infrastructures, in terms of strategic growth plan
I fully understand that it's a very, very difficult task you
have ahead of you as you struggle to manage very, very limited
funds in the current fiscal market but also respect to the
current budget situation we have in California. And I'm not
here to say we want you to consider our transportation projects
ahead of everything else. I think the process you outlined with
the staff recommendations it seems to be at least a reasonable
approach to trying to deal with the immediacy of the
difficulties. We would certainly concur with the
recommendations one, two, three, and we will be working with the
Department of Finance, if I correctly understand your
disbursement freeze item two make sure that our projects are
considered as we move forward.
What I did want to speak to is I know you understand
this intuitively and maybe even more detail is the very, very
significant impact on all of the agencies that you see
represented here with respect to the shutting down and having to
restart projects and I wanted to address that briefly. Keeping
work going as a first priority is absolutely the right choice of
action because there's a very, very significant expense. And I
wanted to highlight that for you. We estimate in just to put
this into context, we have \$1.8 billion in project work already
under name in the State. That's including some local projects
but primarily State projects that we're working on. We have
gone through a recent scare for the December progress payments
where there's a question to whether contractors would be paid.
I want to compliment the construction agency for sticking with
us.
We did not have a single contractor drop out as a result of
that. We cannot continue this uncertainty. It's absolutely
problematic for contractors as they're trying to plan the

workload as they're buying the materials to support the construction work as they're -- they're dealing with staff needs. We also have in addition to the 1.8 billion worth of work already underway we have another 2.2 or so billion dollars of work that we can get underway by June 30th of this fiscal year. We're sort of the victims of our own success in that regard because we've been very very successful in following the Governor's direction to get this work out to the public as quickly as possible. In fact I was at a ribbon cutting just yesterday celebrating the completion of the first project not a groundbreaking but completion of first --

>> Where was that.

>> San Diego along the I 5. So we are making great progress and we have followed the directive of the budget letter which emanated from your previous actions last month. And we have suspended awards and we are not proceeding and advised our local agencies to do the same, to hold back on making additional commitments or incurring additional obligations pending settlement of our State's fiscal crisis and improvement on Wall Street. I'm very concerned about that work that is ongoing and need to continue to pay the contractors to have some degree of certainty. Let me close by highlighting what we have calculated as the actual cost associated with that work or the work that is underway including the support costs and you've already accounted for some of that and including some of the ongoing costs that have already been paid.

These numbers estimates that it would cost us about \$199 million to shut down that amount of work. So what's involved in the shutdown. You can't walk away from construction project. You have to button it up and make sure trenches are built or covered and make sure barriers are in place to prevent motorists driving through construction areas from veering off of into inactive construction site. There are a lot of expenses associated with that. Then, after that there's cost of restarting that work and remobilize them to pay the claims and penalties that will be incurred as a result of the shut down. We calculate that number to be about \$ 192 million. And so you're talking somewhere in the neighborhood of taking out support costs of \$350 million of expense. That's for the State Department of Transportation.

That doesn't include the Community Colleges and High-speed rail and any other project or agencies that have work underway, and that the bulk of those dollars, members, are lost. They are lost to the taxpayers and lost to the State of California. So I just want to encourage whatever this board does to please keep in mind that the best thing you can do is help us keep those contracts going. We are staying ready to

provide whatever information you need to help with those decision and we're not sitting on our desk with respect to this issue. We're working with contractors to see if there're ways to ask the contractors to help extend the workload and working with local partners with local sales tax revenues or other sources of money to help us keep this work moving. I don't want to be labor your time any more members and I wanted to get that point out.

I understand fully the difficult tasks this board has to deal with and wanted you to be aware of some of the ramifications. I would be happy to answer any questions.

>> Do you know just from interaction with local partners whether they're having you know similar sorts of difficulties in keeping things funded whether it's help with the project you're partnered up or their own independent efforts.

>> It depends on the agency Mr. Chairman. Clearly if they have a balance in the sales tax programs they have more flexibility. Some of these are operating month to month relying on receipts as they become available. Certainly local governments are experiencing similar difficulties based on limitations on the public funding available to them. But, some of the agencies do have some capacity that can -- that we can rely on to help us forestall and have to shut down some of this work. The problem is we don't have an end date. We don't have an end date in sight to be able to tell the contractor or local agency, this is when -- is the obligation have you to assume. This is when we can pay you back. This is when we can end the problems. And so that's making it very, very difficult to get the kinds of commitments that we might otherwise be able to achieve.

>> Thank you. I would like to mention of the two pots of money that are at least the recommendations that have been talked about, one third of the first pot is devoted to Caltrans and the fifth of the second pot is Caltrans. You're the largest recipients of any of the requesters. I know there's always the wish list is a lot longer than that I'm willing to pay for it, list, which seems to be part of the problem across -

>> I appreciate that Mr. Chairman. I want to be clearly did not come to add indicate for our project. I happen to think they're the best projects. That's not the purpose of being here.

>> I understand.

>> It's really to communicate with you the issues that many of us are facing as we struggle.

>> And I think the more knowledge there is to the general public about what the budget impasse means in practical

ways is useful information to make transparent.

>> Thank you.

Maybe as appropriate to stay on transit issues a moment. That might cluster a little. Anyone that wanted to add to that topic at this point come on up.

>> Thank you Mr. Chairman. I'm Dave Acreman. I represent the Associated General Contractors of California. Our members perform work on probably a majority of -- if not all of the 276 projects that have been identified. We do majority of the Caltrans work for Caltrans I have with me Phil George and Temple Weaver House one of the contractors. Our concern I won't argue for specific projects or this or that one but look at the overall situation. This last week was pretty traumatic for contractors.

>> We were supposed to get our progress payments on Tuesday for work performed in December. And they all looked at the electronic transfer from the Controller's Office and the account showed a zero transfer at the beginning of the week. Given our work with the Controller's Office last week and with the Department of Finance, we were able to secure payments for most if not all of the contractors by last Friday. That represented about \$33 million in progress payments. We're running basically about \$1 million a day for transportation work under Proposition 1 D projects. Our concern is when those payments were received last Friday, we were already two and a half, three weeks into the next construction period for which you due your payment request on the 20th of the month with Caltrans . Different agencies work different times and think that's what we're asking that you be sensitive to.

When you say we'll pay for work performed, what you mean by work performed and at what time do you look at a start date or stop date for that when our contractors are incurring costs of \$1 million a day on Prob 1D. If you go to the end of the month that's another \$30 million of obligations as Mr. Kempton pointed out. And I do want to give Will tremendous gratitude for the cooperation and work he's done. He came to us very early on with this process and to help our contractors through this period. But I would like Mr. Phil George to at least describe how the payment process works, how the claim works, how he buys materials so that you know if you say, that your policy is to pay us for work performed, work completed, work incurred, we're not talking about something today that you can stop tomorrow.

We're talking about something that's already happened maybe a month ago to incur those obligations. And this is on transportation, sir.

>> George is the mike own?

>> Just checking. We're a small business -- we didn't used to be a small business but this year we will qualify as a small business. Sorry. I introduced myself not being a small business but we're getting there. Our volume is 40% of what it was two years ago. But on one of your projects in particular the downtown for Caltrans's on the list so far. But we're a subcontractor and a supplier on that job. That has, for instance, 25,000 tons of riffraff we already made in our quarry and were expecting to supply riffraff by June. But there are several things that have to happen here. Actually what is supplied by April 15th, there's both Salmon in the river that limit the work season from September 15th to April 15th so any hesitation right now will postpone this project an entire year. Because the work can't be done over those environmental constraints.

The other thing there's bald eagles that are nesting within several hundred or few hundred feet of the project itself. The Department of Fish and Game said you don't work for seven consecutive days you won't work until next year when the eagles are done nesting. There's extrathings put on this particular project. But for us, the decision is to be made by Tuesday, which is the last day of the progress payment for this month. Whether or not to work on Wednesday. And that will be then for the 20th of February. Well after your next meeting to know whether that money is coming or not. But for this money to -- we can't afford being business is down we're already into the open line. If we wanted to go out and get a \$5 million loan to carry this project and give bank the exchange order that says State might pay us some day we can't secure the financing for that.

There's over \$50 million worth of equipment and materials that are there working right now. At least through Tuesday is the plan. But, to shut that down would just be -- cost prohibitive truly. The \$199 million, they forgot ask me about \$1.5 million to put it off another year. You can say it's a little over \$200 million. But as I say, we really can't secure the funding to continue work on that project and I'm understanding from the prime contractor, Golden State Bridge, they're in the same shape. They see it as a breach if they're halfway through a project and they already have plans for their false work, which is structure you build to hold the concrete up until it gets hard they already have plans for those that have been committed to another project as soon as they pull this at the end this work season. So, stoppage on that would be astronomical and any project in mid construction when you're poised and ready to have to stop and restart it is just total may lay.

Thank you. Questions at all? Thank you, sir.

>> Thank you.

>> I have a non-transportation project. I don't know if you want to cluster.

>> It's okay go ahead sir.

>> It's okay?

>> Yes.

>> My name is John Ball and I represent the Associated General Contractors of California. My specific interest today is concerning the San Quentin Central Health Services building which is approximately 60% complete. And by the way, we're pleased to see today that the San Quentin project is on the list of 276 projects considered for exemption but not being optimistic yet, I want to take this opportunity to speak about that project. Briefly.

Our November pay request -- November pay request for a net amount of just under \$3 million after retention was due on December 22nd. This money is due for work performed through November 30th. Well before your December 17 payment freeze date. We have followed the contract. We have a good project. It's on or ahead of schedule and the quality is excellent and it's the contract for the Office of the Receiver and it's going to be a lead silver project when we're done. Since we did not receive payment we provided written notice to the Receiver about needing to get us paid within 14 days, which is within the bound of the contract. And that 14-day notice period is actually up yesterday or today. So we would be within our contractual rights to suspend construction and we really don't want to. It's a great job and we're looking forward to completing it on or ahead of schedule.

The consequences of suspending construction on this project, like you heard Mr. George say, are real. And these costly consequences have been communicated to this board, is my understanding, by the Office of the Receiver. Part of which information came from me and my company.

>> Uh-huh.

>> Our December pay request is also due this coming Monday per the contract January 19th in the net amount of \$3.7 million. Just as a reminder, this project is in the middle of the San Quentin Recreation Yard. You have to go through the Sally port to get there and it is therefore within the maximum security perimeter. Shutting down and restarting this project at a later date we feel poses immediate threat to the security officers, the inmates and also the structure, obviously, it's right on the edge of the bay. The project is not 100% enclosed. A humid environment if ever starts raining again and we are

feeling like --

>> Wednesday.

>> That's what I hear. I hear Wednesday. But, it's not going to be dried in by Wednesday if we keep moving. Certainly there's a mold threat. The project is not 100% structurally complete. The historic facade is vulnerable right now and some of the risks of stopping this project and moving forward frankly are not able to be calculated depending on some of those risks that exist. We certainly would like to see that happen. And, like Mr. George indicated, any construction project that gets stopped in midstream like that whether it's a transportation job or building job the consequences and the flow down effects suppliers and subcontractors is real and not fabricated. Thank you.

>> Thank you Mr. Ball. With most testifiers I always recommend that they be sure that the sort of specific impacts be understood by their local elected assembly and senate member and you're probably the one exception to that because your assembly man might decide to vote against the budget if there were to proceed. That's a unique problem.

>> And I have been in contact with assembly members personally.

>> I know.

>> In the interest of full disclosure let me say I'm a former employee of them but that was in 1975. I don't think that affected my judgment here.

>> I suspect not.

>> Yeah.

>> And we don't remember anything you were doing in 1975.

>> I don't remember most of it.

>> Thank you, Mr. Ball, next, please. Good morning, my name is Skip Brown I'm President of Delta Construction Company small street and highway contractor located in California. We're starting our 66th year in business, family-owned business and I want to talk about the state of the economy out. There is not any. The private industry shut down in those seven and the last six subdivisions I was in part of building the developers forgot to pay me and I would want to try to impress upon the State of California is the first thing if you're going to do if you're going to put a contract to bid, you have to pay your bills. You have to pay your bills. It's -- if you don't pay your bills, you're not going to have the contracts in industry. The second thing I would like to recommend and I'll make this brief, your staff recommends that you freeze some of your payments, one of them was 7A to -- Resources Board until next month I highly recommend you consider holding that

off indefinitely.

The reason for that is regulation, as recently established by the Air Resources Board, destroys the business model. The business model is entrepreneur safe capital and delayed gratification in order to invest in good and service. This good and service employs people and these people expand the tax base. I have not employed any people over the last five months except my main staff or taken a payroll. My outlook for me taking a paycheck over the next year is zero. I want to try to keep my people so I have my business. They destroyed 95% of the value of my investment of some 44 years through via Edict. This is not the way you run a good economy. If you allow this to continue it will never come out of this recession. The economy put us into the recession. But these regulations such as earth warming thing and rest of the stuff and good, clean air and I have five grand children, four children and five grandchildren I want clean air, too. If you don't have the business model out there that can work, you will not get to the delayed gratification and not get this tax rebate.

>> Where is the business.

>> Sacramento, California, sir.

>> Thank you.

>> Thank you for your comments.

>> You're welcome.

>> It probably -- I think you understand that we don't have the authority to make decisions about some other agency's policies that's not what we do.

>> I understand that but if you're loaning the money perhaps you can use your influence about pulling back on the throttles A bit.

>> I understand your viewpoint thank you. 14% of my company volume goes to pay taxes to the good State of California and federal government. My volume is down 55% in one year. And the truth is if you aren't making money we aren't getting it either.

>> You're not getting any of it. That is correct.

>> Chairman members I'm Kirk Girard Community Director for Hummel County and respecting the north -- (Inaudible) we are under contract with the State Water Resource Control Board for 25 million dollars of Water Resource projects under Proposition 50. We have approximately 2.5 million in unpaid bills with our subcontractors and I would like to reinforce the sentiment from member Genest the importance of paying these bills these are large projects in small communities most of which qualifies disadvantage from an economic perspective.

>> Are those grants that basically.
>> We're the regional administrator and we subcontract.
>> Are they grants from the States.
>> That's correct the contract is a grant contract under Prop 50.
>> Okay.
>> The second point is we are fortunate and appreciate the Department of Finance putting our project on the exemption list. In the wake of the budget letter December 17th State Water Resource Control Board published a notice of suspension under the program so we have frozen our projects and we are in a similar situation where contractors and relatively small water district and wastewater district are looking at pulling away projects and laying off staff and if as Genestrecommends the projects on the suspension list be allowed to proceed in the interim period we appreciate the if the Department of Finance formalizes it so the State Water Resource Control Board could modify the notice of the suspension and we could notify our stop work order to our subcontractors.
>> Thank you. We'll take a look at it.
>> As I understand the exemption list generally you're not telling them to shut down yet or what?
>> Right. We have not finished our consideration of the exemption list. We have project we have not yet decided not to exempt, which should still be operating. We'll make it clear to Water Resources. On the other hand if there's no budget by February 1st I don't know how we continue to exempt anything. There will be an abrupt stop on February 2nd if there's no budget. Even a two-week window would make all the difference in the world to keep the projects going. We have projects in process on the ground and it would make a big difference to the project.
>> My guess is if the window is open for two weeks there will be a lot of work done in the next 14 days.
>> Okay.
>> Thank you.
>> Thank you.
>> I should mention maybe too that we're not even sure -- as somebody who is the State's lawyer for eight years I'm not sure we have the legally defensible position authorize the expenditures that we're talking about today. There are various constraints on our funds trust accounts and special funds that have to be kept in the black and on and on and on and we're kind of stretching what we might be able to do mostly because the lawsuit won't be successful by the time anyone -- the money will be gone before then. So, I need to make sure people understand

we're on the edge of what we're legally capable of doing and not quite sure which side of the line we're on. Please go ahead.

Thank you, Avon Garity representing Senator Alan Lowenthal. Switch gears here about school construction. The senator has great concern that what has been put before you today are two -- it appears to be two health and safety projects which we thought was a good criteria to begin with to be put forward for how are we calling it proposed exempted projects, however there has yet to be put forward, from our understanding, of a physical analysis of what is going on out there with the school districts that are under contract for projects. They will be experiencing the same kind of shut down and restart costs that were expressed by Caltrans and our concern is that at this point in time, Finance does not have that kind of information to make those determinations. It's even possible the health and safety projects are in School Districts, I don't know this but could be in School Districts that can afford to cover the costs until the State can reimburse them. So, we would like to ask the Department of Finance and the board before the final decisions are made on where this \$500 or \$650 million that there be an analysis what is happening on the local level with the school projects. And to recognize what I believe is a unique governance structure for these kinds of projects. - The local folks partner equally for the most part with the State. They don't have the same access I would think to view to the Department of Finance in bringing forward their concerns as Caltrans was which is a State level entity.

They have half of the money.

They do.

And unlike us, they pay it after the work gets done. We pay before it happens. It's sort of what we do. I see. But if they are under contract they're under that legal obligation and many of them -- some of them may be waiting for State money and may have to break contracts and that sort of thing. Hopefully they'll have more flexibility. We need analysis of that in order to know what is going on out there because it's likely that ultimately broken contracts, the district gets to -- it will end up in the State's lap. So it is as great a concern. Thank you.

Thank you very much.

Let me say two things about that. First the department has chaired the State Allocation Board so we're intimately familiar with what is going on with school construction. We have done what we could and what is essentially a triage process in which there's so little flexibility involved here we limited our triage to State contracts. We figure there's intermediary with local government

and we'll have to eventually deal with that. The second comment I would make is none of this makes any sense. And the reason is, we started out with all these projects with bond funding and with every expectation we could set bonds and do short term financing on a short-term basis and we didn't have at the time we made these commitments the kind of cash flow problems with the State's general fund that we have now. We are now in this very unfortunate box where if there is no budget, and subsequently also no freeing up of the municipal bond market there's no getting into this.

There's no good to this. It will all come tumbling down. We have to get a budget and we think the bond market may be back. We may stall for a while in best case scenario. And even in best case scenario there will be short-term delays.

There's a modest understanding of the bond market not enough for us to get to market successfully yet. But we keep checking that every day to see what possibilities there might be. It would have ongoing relationships and discussions with investments banks and others that may help put that together. There's a delay even if there were a February 1st budget there's a significant delay before we can actually get to market and bring some cash in from a bond sales so that it's going to be difficult for a while even when the budget finally gets resolved. But thank you for your comments.

Yes.

Good morning, Mr. Chairman, members, Tom Duffy for adequate school housing. I spoke to you at the last meeting. It occurred to me you're in the role of a psychological counselor. We're coming to you and sharing grief and nodding and saying we would like to help. You don't have a lot of tools to assist us.

You got it.

What we want to do, though, is to make sure you know how deep that grief is. So, what cash did for over a period of a week we put out a brief survey of the districts and asking them where they were with regard to projects. We shared that with the State Allocation Board at least verbally on Wednesday and shared it verbally with your representative Mr. Sheehy. The State program as you're suggesting Mr. Treasurer is a 50/50 program where states contribute half. In order to get to the State half the district has to have satisfied a number of requirements that the Allocation Board makes in apportionment and to be able to get the funds released and the district needs to sign a contract and let the State know via assigned document that that contract is in place. So in essence, you'll request that funds be given and a district has to obligate itself. Districts are of course in jeopardy at times like this. So our

survey was really two-fold but the first part of it is what I wanted to share with you and that was to say are you -- have you apportioned funds and signed a contract and requested dollars and yet have not received any? We had responses from 100 districts anecdotal information another districts so from 101 districts we learned there was over \$200 million in contracts that districts have signed. What we learned from the Allocation Board and the office of Public Construction there's \$1.2 billion actually out. There but 100 district responded because I think they thought they were in jeopardy. Those districts will not receive any funds until all this is resolved and we want to make sure they knew we were trying to keep our finger on the pulse. But what is it we can tell the district at this time? Your vote suggested and you just did Mr. Treasurer, a moment ago, responding to Mr. Garrity you're not sure when we have a budget how this will unfolded. How deep is this freeze. How many months do we advice district that they may indeed Mr. Genest not receive funding once we have viable budget.

MICHAEL C. GENEST: It's not totally dependent on the bond market. There would be more flexibility if we had a budget the state general fund cash flow situation would get materially better, that would free up money within AB 55 loans. So I don't think the budget can solve all of our problems overnight. But it could make a huge difference in how much flexibility we have. Ultimately the budget itself is not the ticket. It's the bond market. Of course, if we have that situation, 41.6 billion deficit, no plan enacted to deal with it, going out in the bond market is sort of a risky business and don't be very successful probably at least not to the extent we need to go out there. We first have to get to the budget. That will get us short-term relief. I don't know that it's enough to turn everything on full speed.

But it will make it a substantial difference if we have a budget February 1st. If we don't have budget February 1st you should prepare for an extended delay in getting any money from the State.

And by extended I have no idea how long that would be. Everybody up here knows that in the month of July, with no budget, with no solutions to our budget, I think the state is going to owe bills totaling about \$12 million in the month of July including two School Districts and we'll have about \$2 billion of money to pay with. That can never happen. If that happens I mean that's unthinkable. So I think we have to get a budget by February and certainly that should do some good. But I think even with the budget it will be slow for a while.

Obviously if there's a budget there's some anticipated

revenue improvements and expenditure cuts from current year budget authorizations that would mean there would be some cash flow assistance in the short term because of those if it's -- now, I might also add you know as far as I'm concerned I would spend -- I would authorize time not sure we could legally do it and it wouldn't make us to make the final decision but \$5 billion in registered warrants and IOU and grants. Which is fine if you have a bank that will honor it and the banks seem to be tentatively thinking they will, by in large, it's okay with me. And then I'm not sure we have that legal authority to do that. Because of the guarantees we have to make that there's cash flow available so that would be okay with me. I would say all those projects waiting and in the midstream get an IOU. And we'll see what happens. But again, that is contingent largely on whether it's even legal to do that and I don't -- the staff at least believes it's not at the moment. And I don't have a settled legal opinion that's different from theirs. But you know -- yes, sir? Thank you.

Have you concluded.

One final thing the inter-relationship of the School Districts, general funds, operational funds and capital dollars because of interfund borrowing you do at the State level goes on adds a reality. As I told you at the last meeting we were sending an advisory memo to districts and we have done that and would share it with you if interested. One thing that may very well become a reality for school district is insolvency. You know what that brings to school districts and legislature because of the political process. So I in the triage process Mr. Genest one thing we would like to have you do is elevate. I heard what you said. I appreciate your honesty. You look at for State projects first. If you could in the triage process recognize there are hardship districts which are 100% State funded and have projects and their general funds may be in harm's way and insolvency may be in their the future. Thank you very much. I appreciate your pain Wednesday. I think he and others understand as well a Vallejo bankruptcy for example has already added substantially to the State's borrowing costs. So, there's effects on all of us when there's insolvencies that occur.

Thank you for the counseling.

Members of the board, thank you for allowing me to speak. I'm Ron Hudson deputy superintendent King's Canyon Unified school district in Fresno county. We serve 10,000 students over 600 square miles in the Ag-rural communities of various counties. King's canyon unified followed the State requirements procedure on four of our projects that are currently under construction. We received approvals from the

State Allocation Board. We then entered into a contract. We issued a notice to proceed. Construction commenced and we filed the proper form 5005 on December 9th, 2008. These funds have not been released to us. We're under construction. We ask that you please release these funds to the School Districts that followed the right procedures and request aid fund release prior to December the 17th of 2008.

The State funds on our four projects represent approximately 32% of our construction costs, our communities are holding us accountable for these projects. We have legal obligations to complete these projects. And we do not have the financial ability to cover the gap for any shut down or to -- for the 32%. Thank you for considering.

I note that there is at least a tentative list on the proposed exemptions but it's not included in that. So I assume, folks have talked to the correct representative within the Department of Finance to make your hardships known to them. Yes, that.

If that has not happened adequately.

Of course the real representatives are the ones you represented to legislature.

I think we're all aware of that. Thank you.

I'm sorry, sir.

Mr. Hudson.

Yes. Okay.

Thank you, California State University. In Exhibit A it shows California State University is authorized campuses to pay for work performed by contractors of \$28 million for the work done in November and paying out of student fee revenues and we've given them a green light to pay the \$40 million for work performed before we received the budget recommend me own reactions of this board. We're at about 69 million for November and December invoices for work performed. We do appreciate the work by Department of Finance. They have a daunting job looking at the priorities and unfortunately, I think since we don't have a definitive direction on the exceptions as much as there are some listed for us, with some campuses, we've had to pay cash outlay already it will be difficult decision for us to have those campuses go forward even though we're not on exempted list and we're not sure whether they'll get a green light or not. I'm hoping that any funds that agencies such as ours have provided to contractors and subcontractors, suppliers, to pay for the work performed will be reimbursed to us once the bond money flows that's something we have not received any guarantees on. I know that's difficult. Certainly I hope that's the expectation of this board. I hope that there will be some flexibility given to the agencies if any of those dollars do

flow for exempted projects because we are managing cash on a day-to-day and we believe we'll have to manage invoice to invoice once we hit January. We are looking at spending student financial aid which is not being funded from the State, for the State fund source. So between that and payroll we have a lot of obligation on that funding source. Items that we've talked about and Finance is looking at how we can better estimate the bond cost especially with the interest rates increasing. CSU holds a reserve when funded by G.O. bonds and we hit the escalate of year 2000 we hit reserve. We have not been holding or budgeted a reserve for the restart. We do anticipate a number of scope changes and augmentations needed in order to fund what could be you know Caltrans 192 million for 1.7 billion program for restart. We are not estimating that high. We're starting to get letters from the contractors to what those types of costs will include. Increased prevailing wage and staffing. I wanted to appreciate in advance your consideration of scope changing when we're down scoping to fort Bond cost because we won't have additional G.O. Bonds to pay for it. Thank you very much.

Thank you and I notice looking at the High Ed list there's a lot -- or not a lot. There's some proposed exemptions on Irvine. I'll renew my prior suggestion was with since no one in Orange County votes for a budget. We should tell you to tell them to Google and let them turn it into a high tech campus and let those students commute elsewhere. Anyway, so far that suggestion has not been taken up by the Governor's Office as often as I make. I thank you though for your assistance. That was only half true recommendation. But sir.

Thank you, let's turn to environmental construction projects for a second.

Okay.

My name is Rudy Rosen director of Western Operations for Ducks Unlimited. Like everyone else we urge you to take whatever action that is possible to resume the sale of bonds and lift the freeze and I appreciate your candor today that truly helps in understanding the predicament that we're all in. We work in collaboration with private landowners, other non-governmental agencies to help conserve acreage and conduct environmentally constructive projects. Our wetland scientists and engineers are now engaged in over 230 west lands restoration project in California and many of these are now on hold as a result of this suspension of bond funded work. Then we go over 2.3 million for work yet to be paid which is completed before the suspension. We'll invoice the State for additional \$550,000 within the next few days in expense for ending projects. In one case, we were faced with a ship carrying heavy dredging

equipment on route to a big area project when word came to immediately suspend work. We wondered how do you suspend a ship on the water? Well, that particular project is under a time crunch because of endangered species window that closes in the next few days we have for construction. We were \$200,000 into the construction. We would have cost us \$250,000 to demobilize and remobilize that project. And that would be \$450,000 in expense on a \$700,000 project. So we assume that this project qualify under the exemption and we informed the agency who administers this grant of that and as it was indicated, it was possible to, do using other funds we've now completed that project. Unfortunately that project would have cost \$450,000 to no end if we just stopped it.

Isn't on this list of exempt --

I think no grants are as I understand it currently on the list. There's like 4,000 of them. It's my understanding is that the grant program --

I see that the Wild Life Conservation board is not on the list at all either. So you may be.

If it's grant funding we have a column on the other sheets of those and it's my understanding that temporary policy has been none of the grants -- am I saying it correctly, none of the grants are currently contemplated for the exempt list. But that hardship circumstances are going to be reviewed if money permits.

>> We understand that Wildlife Conservation Board has really -- obviously, without payment an organization, charitable, non-profit organization like ours and many others simply can't carry that kind of debt. We work in partnership with State and many cooperative project that would only be financed in part in the State would not be put on hold. Not only are we losing jobs or impacting the economy but potentially impacting the environment we are also for going other monies, Federal funds, Federal matching funds and private dollars such as those that Ducks Unlimited contribute those projects. I thank you for your time.

>> I should renew particularly because of the places your projects occur at least frequently, they're represented by people that are not helping as much to solve this problem. I hope that people are checking in with their elected representatives to at least make them -- it may not change their fundamental philosophy but they become aware of the practical results of their philosophy. Unfortunately it's very frequently in the Capitol you're so removed everything so theoretical you don't hear the sort of talk I believe impacts every decision that gets made. The more information we share the with what goes on the more likelihood of resolution

>> Our members will become acutely aware when I have to start laying off my staff.

>> Thank you.

>> Grants? I'm guessing. I would not be surprised from the grant list is this summer before we see. If we see it happen again. I'm kind of guessing. Even with the budget and ability to access the bond markets it might be a number of months before I get to the grant list.

>> Mr. Victory.

>> Good morning, let's me compliment you on be the best whiners in the business.

>> It is a compliment.

>> I'll take it as a compliment. Members of the board thank you for the time and attention you and your staff have dedicated to a specific project that we're interested division three in Santa Anna. This particular project that has moved ahead is a model project is 70% complete as it now stands. It is due to be completed and of course in May or June of this year. It is temporarily stopped although the project manager remains onsite and crews are still available. The facility is not weather tight and like some of the other projects you heard testimony on is subject to water damage and other consequential damage and possible mold risks and other activities.

In addition if we do not begin work soon we'll have to extend leases and incur other financial obligations for the appellate justices and staffs and facilities they're now in or other facilities if we can't extend the lease on those buildings. We appreciate the facility is on the list for possible exemption and we would urge your support to provide the means to we can get people back to work immediately and try stay on schedule to get this facility completed and occupied within the budget that has been provided. I'm joined by Lee Willavee officer of construction management who can offer any comments if you have any or answer or respond any questions the board has.

No, thank you. I would like to emphasize if we could get this back going --

Going still?

No we stopped except for critical security issues. We listened to the Department of Finance and State Controller and we stopped work.

Okay.

And that's what we understood everybody was to do. We did stop work.

We instructed everybody to stop work unless they were applying for exemption. I thought you were applying for exemption. I thought that. We are continuing to consider your exemption.

>> We can take them off the exemption list.
>> No.
>> At this point if it is stopped there's no point restarting it. Let's wait until February 1 and get a budget and if so --
>> I think frankly more than almost any other projects every rich lawyer I know I've heard from, from Orange County. I wonder why they don't advance the money frankly since they're so concerned about this matter. You and Dave have done an excellent job of making their -- your case on your behalf.

We support, obviously appreciate the support of the legal community but consistent with your other advice we've been active in contacting our elected representatives not only in Orange County but across the State in both parties about the support.

And I know you've done that, which I appreciate the activity in that respect, too, to make people aware.

I know you wanted to add something. If you can think of something really fast in two weeks now that you've shut down? Probably not.

We could. In fact, this is what's so critical. If we could go back to work virtually immediately. People don't leave. The subs will disappear. The people that have worked so well on that job. It's been a wonderful project. If we could get back immediately, it's going to minimize the impact of the delay. We have pictures.

I guess they're particularly sensitive about obeying the laws and the rules. So I guess merits compliment for respond to go the freeze order in really a fast and total way. You have photos.

If you would like, for the members of the panel. If

You might bring that up to us if you want. Do you need that back or do you need that back?

You may keep these. If you just look at these, as Mr. Victory said, the roof's not quite finished. The windows are not in. We're not weather tight but we could be so quickly, which would minimize any consequential damages and the potential for mold in

the future.

The other recommendation, I think making it public, the Orange County Treasurer Chris Treat, believes that he's capable of providing finance for us at least. I don't know about local entities. And large numbers that he mentions, potential financial pools that could be drawn on.

And so particularly since it's from Orange County, I would think it would make a lot of sense to check in there for the community college districts, for your own project and so on, to see if there's any possible bridge loan capacity.

I don't know whether there is, but at least check into it.

The problem is we have no authority at the appellate level to borrow.

Well, do you want me to provide you with that list of lawyers' names?

I think I have that list.

I think you do, too. Okay. Thank you very much.

>> Thank you.

>> Anyone else?

>> Thank you for the opportunity to speak. My name is Darla Ginsler California director of land trust which are a nonprofit organizations ranging from the nature conservancy, California range trust land down to all small volunteer groups. And we recognize the terrible crisis that the lack of budget, frankly, has manufactured for the state and is causing such an impact on workers throughout the state and local communities, and we appreciate the direction the department of finance is taking and encouraging, in encouraging the board to take, in addressing this crisis. Both the process as well as the \$500,000,000.00 in completed work, and the staff costs to keep the resource agencies going that is so important to such important partners for the nonprofit land trust.

Like all sectors, this is having a profound impact on both our state agency partners and the nonprofits who, in many cases, are significant local employers of the projects, and we have both the start up costs and restarting costs that Mr. Kinton referred to earlier this morning, but also in many cases, because we're dealing with natural systems, we're faced with undoing years and millions of dollars of public investment in some of our projects like Coho salmon and invasive Sparstan, so forth. We're trying to be creative in finding ways around the crisis. We're discouraged that the grants may be considered last, but this is

a tremendous state problem. We understand. But it would be very helpful to us in the meantime if we could get some direction on our outstanding questions; like we're getting very different answers in terms of whether contracts can be extended? That the work has had to stop, but we're hearing from some agencies there's no possibility of extending those extensions once the bond funds kick in at some point again. Or whether if we're able to patch together and not lose other charitable dollars or federal dollars that we have, if we're able to keep some level of work going, will it be possible to be reimbursed after the fact? And so if we could get even some clarity on those kinds of questions, I know the end date, of course, is another important one. But no one has a good answer to that. But some of those things would really help us try to weather this situation. And we'll be working, of course, with the agencies and our members to identify any particular hardship cases and bring those forward, and we appreciate consideration of those. Thank you very much.

>> Thank you. Just the general numbers seem to be there's about \$20,000,000,000.00 in the pipeline for all the various kinds of bond claims. And of that about \$2,500,000,000.00 as far as we can roughly estimate is claims by the nonprofits, the various sorts of work that you've described and others. And a draw of about, in the next several months, about 650,000,000.00 that's needed. So it does get to be a substantial number, I guess, even within that 650, if we could figure out the triage possibilities, someone ought to keep communicating that and then with respect to contract extensions I hope someone will give them some clarification.

>> If we can get back on an even keel, we can seriously consider how to do that. At this point we're looking at shutting everything

>> I mean whether or not they can even extend a contract legally.

>> That I don't know. We'll have to have some of the staff talk with them.

>> Thank you very much.

>> Yes.

>> I'm Jesse Creme with the California Association of Resources

Conservation District. I represent the 104 conservation districts that cover the entire state of California. We're a local special district but we've never been funded by the state. We operate primarily off the grants. We work within the state. And due to that fact we are subject to the public contract code, we work a quarter in arrears on our invoices, submit them and then we actually have to advance payment, as well as house operation in front of that.

We are currently we have several grant invoices that were submitted back in September that did not meet to the Controller's by 17th. Some are in arrears and are now having contractors levying liens against us. This is a critical situation.

We not only have a lot of different projects that work with the public and leverage funds from the local public area; a lot of times at the rate of 7 to 8 for the state. But we also work in a highly sensitive areas that are need massive amounts of permits and processes to be able to work in those sensitive areas. By stopping work on some of these grants, I want to make sure that the state is aware that we have projects in sensitive areas that could be enacting a take if we do not finish them. They're imperiled areas we're working with P and C species and habitat enhancements. If we do not speak to the completion of those contracts and complete and satisfy our permit needs, we could very much be in breach of those contracts in terms of the permitting. So we wanted to make sure that's something that you understand.

I think it is as a matter of state policy the fact that a local agency could be financially liable for a contractual breach initiated at the state level is simply unacceptable. The statutes all speak to the Legislature's desire to ensure the contractors and small businesses are paid on time. The RCs are contractors of the state and should not be afforded any different treatment.

The state and R not the RCs should be responsible for the interest incurred for the state's budgeting error. I wanted to make sure you were aware of that. I appreciate the department of finance's position in looking at different ways to be able to solve this. But apart from the fact RCs are incurring interest on unpaid contractor's invoices the PMIB should be aware that the failure to pay those invoices will impact all the matching funds that we have secured to be able to invest into our local areas within the State.

>> Thank you.

>> And I'm Diane Crumbly and with me is Heather Nichols Cole.

And we work at the Yolo County Resource Conservation District. So we are one of the local districts that is part of the over 100 network throughout the state. What I thought I would do today is to give you a little bit better picture of just sort of the day in the life and really what the on the ground work of an RCD does, because I have never even heard of them before three years ago before I started working with them.

We are in Yolo County we actually have 10 employees at our RCD, and that's considered large. There are many R CDs that are staffed by literally one or two folks. And they work extremely hard and they're mostly all funded by the grant. So we have 90% of the 18 grants that we currently have are state funded and so we've had to so it's a huge amount of our funding.

>> I hope you'll help us manage our time, because it can get redundant, and we need to

>> Yes. Our organization has been around for 50 years, as many of these others have as well. And what we're doing is we are the interface between getting the money and actually putting the on the ground projects on private farmer, rancher's land. So it's really the implementation of these ideas about resource conservation, water quality, water conservation that the voters have voted on these various bonds.

And so we're the actual ones that are getting it done. And to develop those relationships with the private landowners truly can take years and years. And to be able to be effective, there are people who have been in these jobs years and years.

And so the major hardship that I'm concerned about is that all of these organizations run so leanly that we only we're one of the best funded R CDs in the whole state and we have two months before we will have to completely close down. Two months in reserve.

And the thing is that once these people disbursed, that it's not just it's not just like saying, okay, we'll open up the doors again and hire new people. If we can't keep the people who have these long term relationships, then the work really can't get done.

So many of the work is directly impacting things like erosion of Cash Creek that has mercury deposits that, then, if we can stop that erosion right there, then that has a true impact on the water quality for the whole State in terms of what they're drinking.

>> I hate to continue to be Dr. Doom but even with an early adoption of budget I'm skeptical whether you'll see anything within two months.

>> Within?

>> Two months.

>> Okay.

>> So just be prepared for the worst.

>> Okay.

>> Did you want to introduce yourself for the record.

>> Heather Nichols Cole.

>> Similar?

>> Yes, we work together, funded by grants. And my whole paycheck comes from this.

>> Brand new employee.

>> Thank you for the work you do.

>> Thank you. I don't want to be redundant, but I did think that somebody should speak to, I represent Point Reyes National Sea Shore Association. We just completed a restoration project. On one level we're very lucky. We got our work done. Mostly in October, but we still are owed over \$500,000 on a couple different grants with the State. And I did just think someone ought to speak from an organization like ours who has done great work, brought the project in on schedule under budget. But our traditional work is educating school children, connecting them to the environment; having a \$500,000 cash flow issue for us literally threatens our continued viability as an organization. So it does go to the fact that if there was some way to at least get the bills that are sitting on the desk paid so that this infrastructure that worked so hard to protect our environment can at least be on life support and continue to be in existence so that when the grant funds start to flow again, to start the projects up again, that there will be an infrastructure to accomplish that. So thank you very much.

>> Thank you. Had we heard from everyone that wished to comment? Seeing none additional, we'll return to the staff recommendation of the points that have been made and the recommendation from the Director of Finance that the freeze

item, which is number point number four on the actions, I guess these would be taken all as one topic, or do we have to break them down into one topic is okay?

So the suggestion is then that rather than \$500,000,000.00 , that it be \$600,000,000.00 pardon me, \$650,000,000.00 distributed on determination made by the Department of Finance as to highest priority.

>> Want it specific to the first two columns?

>> Want it specific to the first two columns, that's how we got that number.

>> I'm not sure we need that direction. We're instructed to work with the Controller's. So I think between the two of us, any flexibility we can have is probably good.

>> Okay. So not specified, but we understand the first two columns do wind up being \$650,000,000.00. Comments at all? Additional comments? The motion is to adopt the recommendation as amended on the, some sheets of paper before you. I don't know what they're called in your list. Staff report agenda item 7. Okay. Any discussion of that? Did you need to add anything different for clarification?

>> For the loan renewals, the eight items we'd like to read into the department name and loan amount.

>> Before we adjourn.

>> Okay. Do we all have to be present to hear you read them all into the record?

>> Someone will be. I know Mr. Genest needs to get back to a big 5 meeting and Mr. Jabar has responsibilities as well. There's a motion before us.

>> Second.

>> Let's call the role.

>> State Treasurer.

>> Aye.

>> State Controller.

>> Aye.

>> Director of Finance.

>> Aye.

>> Does that conclude our business other than reading those items into the record?

>> All right. We're done for the day

>> The finance committee.

>> Oh, yes, I should mention there are these finance committees, bond committees that need to meet in this room. It's brief. Probably anyone that was here for the prior discussion will have absolutely no interest in that discussion. So that if there are conversations or whatever that need to occur, we hope those would be outside of the room so we can get these bond meetings concluded very, very quickly.

>> There will be two people here, right?

>> I'm represented.

>> You're represented. And I'm here. That's a quorum.